

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER OF the Consideration)
of the Adoption of Energy Policy Act of)
2005 Standards Regarding Net Metering,))
Fuel Diversity, Fossil Fuel Generation)
Efficiency, Smart Metering, and)
Interconnection)

UTILITY DIVISION

DOCKET NO. N2006.5.60

COMMENTS OF NORTHWESTERN ENERGY

NorthWestern Energy (NWE) respectfully submits the following comments in response to the Montana Public Service Commission's (MPSC or Commission) Notice of Inquiry and Opportunity to Comment regarding consideration of the adoption of five new federal standards established by the Energy Policy Act of 2005 (EPACT or Act).

The comments set forth below are addressed to those standards directly applicable to NWE; specifically, the Net Metering, Fuel Diversity, Smart Metering, and Interconnection Standards. As certain exemptions within the EPACT are applicable to the Commission's consideration of the Federal Net Metering and Fuel Diversity standards, they will be analyzed together within the comments below. The other subjects will be commented on within separate sections.

NET METERING & FUEL DIVERSITY

The EPACT does impose a mandatory obligation upon states to consider Federal net metering and fuel diversity standards. However, the Act also provides an exemption for states that implemented net metering and fuel diversity standards prior to the passage of the Act.

16 U.S.C. 1621(d) provides:

(d) Prior State actions. Subsections (b) and (c) of this section shall not apply to the standards established by paragraphs (11) through (13) of section 111(d) [16 USCS § 2621(d)] in the case of any electric utility in a State if, before the enactment of this subsection [enacted Aug. 8, 2005]—

- (1) the State has implemented for such utility the standard concerned (or a comparable standard);
- (2) the State regulatory authority for such State or relevant nonregulated electric utility has conducted a proceeding to consider implementation of the standard concerned (or a comparable standard) for such utility; or
- (3) the State legislature has voted on the implementation of such standard (or a comparable standard) for such utility.

In the case of net metering, Montana's legislature has voted on the implementation of a standard that is applicable to NWE. Montana Code Annotated (MCA) §69-8-601 et seq., enacted into law in 1999, imposes a net metering standard, upon restructured utilities. NWE is a restructured utility under Montana Code Annotated § 69-8-201 et seq. As a restructured utility, NWE is subject, by the express terms of the Energy Policy Act, to the net metering provisions imposed by Montana law.

Similarly, Montana also implemented a fuel diversity standard as part of the Electric Utility Restructuring Act. NorthWestern is a restructured utility and default supplier under Title 69 Chapter 8 of the Montana Code Annotated. Under Montana law, the default supplier has an obligation to: (1) provide adequate and reliable services at the lowest cost; (2) conduct an efficient supply resource planning and procurement process that evaluates the full range of cost-effective supply and demand side management options. Montana Code Annotated 69-8-419 et seq.

Further, the Commission has promulgated rules pursuant to its authority under Title 69 Chapter 8 of the Montana Code Annotated to provide the Default Supplier with guidance for resource planning and procurement. Specifically, under the Commission's rules, the Default Supplier is required to: (1) maintain an optimal mix of demand-side management and power supply sources; (2) maintain power supply contracts with diverse terms with respect to underlying fuels, generation technologies and associated environmental impacts. A.R.M. 38.5. 8204. Commission rules also require the Default Supplier to establish an optional retail electricity product composed of, or supporting power from, certified environmentally preferred resources that include but are not limited to biomass, wind, solar or geothermal resources. A.R.M. 38.5.8209.

The standards for net metering and fuel diversity for restructured utilities

implemented by the State of Montana, through its legislature and the Commission, fall squarely within the exemptions provided within the EPACT. As a restructured utility and the default supply provider, NWE must comply with the existing standards for net metering and fuel diversity. NWE declines to comment and takes no position on the applicability of the federal net metering and fuel diversity standards to non-restructured utilities.

SMART METERING

NWE has been evaluating the costs and benefits of smart metering over the past 18 months. Research and pilot program results from other utilities indicate increased cost of service without meaningful reduction in power supply expenses. Rates would increase unnecessarily in the wake of adopting this federal standard in its present form.

Time-based rate programs can make sense in some markets, for some types of customers, in certain situations. However, this “one-size-fits-all” federal standard contemplates time-based pricing for any and all types of customers, regardless of the utility’s power supply/generation situation, cost structure or service territory characteristics. Ostensibly, the rationale behind establishment of this standard presumes that NWE’s rural utility service territory and characteristics of its customer base is the same as those found in large urban centers like Washington D.C. or Los Angeles, CA.

Because of the metering and billing requirements, load density and customer density are important determinants of the economics of time-based pricing. Higher densities result in better economics, and lower densities result in worse economics. NWE’s service territory is more sparsely populated and the average load per unit area is lower than in metropolitan areas where time-based pricing programs are more likely to make economic sense ... at least for larger numbers of customers.

Requiring that utilities be prepared to offer time-based pricing to any and all customers that request it will force those utilities to invest in expensive billing, metering and communications system upgrades needed to make such programs work, and to stand ready to respond to customer requests for these programs from anywhere in the service area. This additional investment is not likely to be offset by cost savings in purchased power.

Recent experience by Puget Power with a mandatory time-of-use pricing program (and the expensive metering/billing systems) supports this. Also, preliminary analysis conducted by NWE on Demand Response programs that use time-based pricing (rates), and which require interval metering, indicates that the benefits of such programs do not exceed the costs.

NWE acknowledges that there may be instances where time-based pricing programs are economic for a subset of its customer base – likely the very largest electric customers. The Commission may consider establishing a time period that would allow utilities to perform additional investigation, develop more experience, conduct field trials and complete and present follow-up analysis that would support a more informed decision by the Commission on appropriate smart metering and time-based pricing programs. This would allow Montana to avoid lurching into unnecessary and large expenditures for infrastructure to meet federal requirements before it is clear whether those investments will benefit, or harm ratepayers.

For the reasons presented, NWE recommends that the Commission not adopt the Federal Smart Metering Standard.

INTERCONNECTION

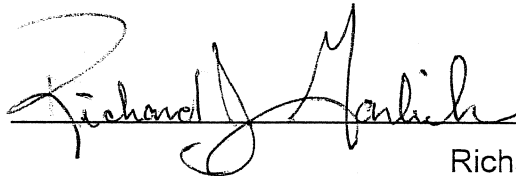
Unlike the Federal Smart Metering Standard, which is very specific in its requirements, the Federal Interconnection Standard is generally very broad. The exception is, the Federal Interconnection Standard obligates the utility to make available upon request, interconnection services to any electric consumer the utility serves. NWE generally complies with a customer's request for interconnection to its distribution system, including interconnection of net metering customers, provided they meet current interconnection standards. Additionally, the Federal Standard states that interconnection shall be offered based upon the standards developed by the Institute of Electrical and Electronics Engineers, specifically, IEEE Standard 1547.

To apply to a diverse audience, IEEE Standard 1547 is basic and somewhat generic. It covers only the basic technical aspects of interconnected resources, such as distributed generation, including performance, operation, testing, safety and maintenance. The recommendations in IEEE Standard 1547 are limited to 10 MVA capacity or less, connected to primary or secondary distribution systems. Most utilities will have system specific issues such as study requirements (feasibility, system impact, facilities), mitigation of system impacts, scheduling of projects or business/tariff issues which are not addressed by this Standard. Examples of business/tariff issues include ownership and maintenance of the system, determining the party responsible for paying for any necessary upgrades to the distribution/transmission system and/or qualifying the length of time the utility has to respond to a request for interconnection.

NWE currently offers interconnection services comparable to the services contemplated in the new Federal Interconnection Standard, including the interconnection services integral to Montana's Net Metering statute. Therefore NWE recommends that the Commission not adopt the Federal Interconnection Standard.

Should the Commission determine it is necessary to adopt the Federal Standard or a variation of it, NWE recommends that the Standard reference not only IEEE Standard 1547, but the importance of coordinating such interconnection activities with FERC Standard 2006-A for small generation interconnection (<20 MW) and FERC Standard 2003-C for larger generation interconnection (>20 MW). Further, any interconnection standard adopted by the Commission should provide the flexibility to address system specific concerns and related business/tariff issues discussed above.

Respectfully submitted this 16th day June, 2006

A handwritten signature in black ink, appearing to read "Richard J. Garlish", is written over a horizontal line.

Richard J. Garlish
Attorney for NorthWestern Energy
40 E. Broadway
Butte, MT 59701